

possible additional regulatory compliance costs and even the required closure of operations. There can be no assurance that existing environmental laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations will not materially adversely affect our results of operation and financial condition or that material indemnity claims will not arise against us with respect to properties we acquire.

We will not obtain title insurance.

When we acquire gas mineral leases and well working interests, we will not obtain title insurance or other guaranty or warranty of good title. Title insurance is not available for mineral leases. Accordingly, it is possible that third parties may assert claims against our legal entitlement to the gas mineral leases and working interests being acquired. In order to alleviate this risk, we will require a title search and title opinion on all leases prior to drilling. However, there is no assurance that all title defects will be cured prior to drilling.

We may experience liability from personal injury, property damage or damage to the environment.

Personal injuries, damage to property and equipment, reservoir damage, or loss of reserves may occur when a well is drilled. Environmental laws may also create liability. We will procure insurance for losses at the level we deem reasonable. However, certain risks of loss are either uninsurable or not economically insurable. An uninsured loss may hurt the Company's financial position and your return on investment.

We are exposed to risks associated with the oil & gas industry.

We expect to maintain insurance against some, but not all, of the risks associated with drilling and production in amounts that we believe to be reasonable in accordance with customary industry practices. The occurrence of a significant event, however, that is not likely to be fully insured could have a material adverse effect on our financial condition and results of operations.

Oil and gas prices are volatile and an extended decline in prices could hurt our business prospects. Our future operations and the anticipated carrying value of the Company's oil and gas properties will depend heavily on then prevailing market prices for oil and gas. We expect the markets for oil and gas to continue to be volatile. If we are successful in establishing production, any substantial or extended decline in the price of oil or gas could:

- have a material adverse effect on our results of operations;
- limit our ability to attract capital;
- make the formations we are targeting significantly less economically attractive;
- reduce our cash flow and borrowing capacity; and
- reduce the value and the amount of any future reserves.

Various factors beyond our control will affect prices of oil and gas, including:

- worldwide and domestic supplies of oil and gas;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- political instability or armed conflict in oil or gas producing regions;
- the price and level of foreign imports;
- worldwide economic conditions;
- marketability of production;
- the level of consumer demand;
- the price, availability and acceptance of alternative fuels;
- the availability of processing and pipeline capacity, weather conditions; and
- actions of federal, state, local and foreign authorities.

These external factors and the volatile nature of the energy markets make it difficult to estimate future prices of oil and gas.

At this time, we have very limited proven reserves.

Because we are in the initial stages of exploration and development of our oil and gas wells, we have very limited proven reserves in connection with the Kirby CBNG Project. See "Property Overview."

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our drilling activities are subject to many risks, including the risk that we will not discover commercially productive reservoirs. Drilling for oil and natural gas can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficient revenues to return a profit. In addition, our drilling and producing operations may be curtailed, delayed or canceled as a result of other factors, including:

- unusual or unexpected geological formations;
- pressures;
- fires;
- blowouts;
- loss of drilling fluid circulation;
- title problems;
- facility or equipment malfunctions;
- unexpected operational events;
- shortages or delivery delays of equipment and services;
- compliance with environmental and other governmental requirements; and
- adverse weather conditions.

Additionally, coal beds frequently contain water, which may hamper our ability to produce gas in commercial quantities. The amount of coalbed methane that can be commercially produced depends upon the coal quality, the original gas content of the coal seam, the thickness of the seam, the reservoir pressure, the rate at which gas is released from the coal, and the existence of any natural fractures through which the gas can flow to the well bore. However, coal beds frequently contain water that must be removed in order for the gas to detach from the coal and flow to the well bore. The average life of a coal bed well is only five to six years. Our ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not we can produce coalbed methane in commercial quantities.

Substantially all of our producing properties are located in the Rocky Mountains, making us vulnerable to risks associated with operating in one major geographic area.

Our operations are focused on the Rocky Mountain Region, which means our producing properties are geographically concentrated in that area. As a result, we may be disproportionately exposed to the impact of delays or interruptions of production from wells in this area caused by mechanical problems, damage to the current producing reservoirs or significant governmental regulation, including curtailment of production or interruption of transportation of natural gas produced from the wells in this region.

Seasonal weather conditions and lease stipulations adversely affect our ability to conduct drilling activities in some of the areas where we operate.

Oil and natural gas operations in the Rocky Mountains are adversely affected by seasonal weather conditions and lease stipulations designed to protect various wildlife. In certain areas, drilling and other oil and natural gas activities can only be conducted during the spring and

summer months. This limits our ability to operate in those areas and can intensify competition during those months for drilling rigs, oil field equipment, services, supplies and qualified personnel, which may lead to periodic shortages. Resulting shortages or high costs could delay our operations and materially increase our operating and capital costs.

Competition in the oil and natural gas industry is intense, which may adversely affect our ability to succeed.

The oil and natural gas industry is intensely competitive, and we compete with other companies that have greater resources. Many of these companies not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may have a greater ability to continue exploration activities during periods of low oil and natural gas market prices. Our larger competitors may be able to absorb the burden of present and future federal, state, local and other laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, because we have fewer financial and human resources than many companies in our industry, we may be at a disadvantage in bidding for exploratory prospects and producing oil and natural gas properties.

Certain Risks Related to the Offering

The purchase price of the Units may not reflect the value of our stock.

Management determines the purchase price of the Units based on a number factors, including the operating results of, and future prospects for, our business, the industry in which the we compete, an assessment of our management and present operations, the general conditions of the securities markets at the time of the Offering and the prices, revenues and earnings of similar securities of comparable companies at the time of the Offering. The price per Unit does not bear any relationship to our assets, book value, earnings or net worth or any similar criteria. The price per Unit in this Offering may not accurately reflect the value of the Units.

Our Common Stock and the Warrants offered pursuant to this offer will be restricted and are not publicly traded and, in general, cannot be transferred or sold.

The Common Stock initially offered will be unregistered and cannot be resold unless under Rule 144 or pursuant to an effective Registration Statement filed by the company. There is no public market for them or the Warrants that underline the Units we are offering. The Common Stock and the Warrants contained in the Units are being offered pursuant to a private placement and have not been registered with the Commission under the Securities Act, or under any state securities law, and may not be resold without registration with the Commission or the availability of an exemption therefrom. Pursuant to a registration rights agreement with purchasers of the Units offered herein, Fellows will use reasonable efforts to cause a registration statement covering the Common Stock to be filed with and declared effective by, the Commission only upon the occurrence of certain conditions. Even if such registration rights are exercised, we cannot assure you that we will be able to successfully complete registration of the Common Stock. In addition, there are no registration rights with respect to the Warrants. As a result, the purchase of the Common Stock and the Warrants should be considered a long-term investment. As there can be no assurance as to the development or liquidity of any market for the Common

Stock or the Warrants, investors must expect to bear the economic risk of an investment in these Securities for an indefinite period.

Penny Stock Regulation

Shares of our common stock are subject to rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the Securities and Exchange Commission.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our common stock may have difficulty selling those shares because our common stock is subject to the penny stock rules.

Purchasers of the Units will experience immediate and substantial dilution in net tangible book value per share of Common Stock.

The Offering Price of the Units is substantially higher than the net tangible book value per share of our Common Stock and common stock equivalents outstanding immediately after the Offering. Therefore, based on the Offering Price of the Units, purchasers in this Offering, on a fully diluted basis, will incur an immediate and substantial dilution in the pro forma net tangible book value per share of the Common Stock. We may, in the future, issue additional shares and there can be no assurance that any such future offering will not cause further dilution to the holders of the Common Stock and the Warrants. Further, dilution will occur upon exercise of outstanding stock options and may occur upon the exercise of options granted in the future by the Company. See "Company Overview – Dilution."

We will have discretion as to the use of the proceeds of the Offering.

Although we have provided for the use of proceeds, we cannot specify with absolute certainty the amount of the net proceeds of your investment that will be allocated for each purpose as set forth therein. As a result, our Management will have broad discretion in applying the net proceeds of your investment, and could include uses with which stockholders may disagree. The failure of management to apply such funds effectively could have a material adverse effect on our business, financial condition and results of operations. See "Use of Proceeds." See also, "Certain Risks Related to the Offering."

Actual results could vary materially from the results disclosed herein and you should be prepared to lose your entire investment.

This Memorandum contains forward-looking statements including, without limitation, trends impacting the natural gas industry (including prices and market demand) and information regarding estimates of potential reserves and potential production. Our actual results could differ materially from those discussed or implied in the forward-looking statements as a result of the foregoing risk factors and other factors.

Because of these and other risks, you must be willing to accept the potential that you will not receive a return of capital on this investment and that you could lose your entire investment. You should not assume that the foregoing are the only risks. Other risks may exist about which we are currently unaware. Unanticipated changes and circumstances beyond our control, such as changes in laws, regulations and economic conditions may create additional risks not currently apparent. Some risks may be inherent in your personal circumstances. You should seek independent investment advice before investing in the Company.

FORWARD LOOKING INFORMATION

This Memorandum and our filings with the Commission contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Memorandum and our filings with the Commission, the words “anticipated,” “believe,” “estimate,” “project,” “budget,” “will,” “should,” “hope,” “may,” “intend” and “expect” and similar expressions identify forward-looking statements. Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, these plans, intentions and expectations may not be achieved. Forward-looking statements in this Memorandum and our filings with the Commission include, without limitation, statements regarding:

- financial position;
- business strategy;
- budgets;
- amount, nature and timing of capital expenditures;
- drilling of wells;
- potential reserves;
- timing and amount of future production of natural gas and oil;
- operating costs and other expenditures;
- future net revenues from production and estimates of potential oil and gas reserves;
- cash flow and anticipated liquidity; and
- prospect development and property acquisitions.

These forward-looking statements are based on assumptions that the Company believes are reasonable, but they are open to a wide range of uncertainties and business risks, including the following:

- fluctuations of the prices received or demand for oil and natural gas over time;
- risks associated with oil and gas exploration;
- our ability to find, acquire, market, develop and produce new properties;
- availability and cost of material and equipment;
- uncertainty of reserve estimates and timing of development expenditures;
- operating hazards;
- climactic conditions;
- availability of capital and unexpected substantial variances in capital requirements;
- the strength and financial resources of our competitors;
- regulatory developments;
- environmental risks; and
- general economic conditions.

Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Memorandum and our filings with the Commission. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Memorandum and our filings with the Commission, including under the heading “Risk Factors.” These factors are not intended to represent a complete list of the general or specific factors that may affect us. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

SUBSCRIPTION PROCESS

Suitability Standards

Prospective purchasers of the Units should give careful consideration to the entire contents of this Memorandum and the exhibits and the documents referred to herein, including, in particular, the risk factors described under "Risk Factors," the fact that an investor's entire investment may be lost, and the limitations described under "Risk Factors" with respect to the lack of a readily available market for the Securities, the restrictions on the transfer of the Securities and the resulting long-term nature of any investment in the Units.

This Offering is being made solely to "accredited investors," as such term is defined in Rule 501(a) of Regulation D under the Securities Act. To be an accredited investor, an investor must fall within any of the following categories at the time of the sale of Units to that investor:

- A bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; an insurance company as defined in Section 2(13) of the Securities Act; an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that act; a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act to 1958; a plan established and maintained by a state or its political subdivisions, and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of that act, which is either a bank, savings and loan association, insurance company, or registered investment advisor, or if the employee benefit plan has total assets in excess of \$5,000,000, or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- A private business development company as defined in Section 202(a)(22) of the Investment Advisors Act of 1940;
- An organization described in Section 501(c)(3) of the Internal Revenue Code, a corporation, a Massachusetts or similar business trust, or a partnership, not formed for the specific purpose of acquiring the Units, with total assets in excess of \$5,000,000;
- A director or executive officer of Fellows;
- A natural person whose individual net worth, or joint net worth with that person's spouse, at the time of such person's purchase of the Units exceed \$1,000,000;
- A natural person who has an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;

- A trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Units, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D; and
- An entity in which all of the equity owners are accredited investors (as defined above).

As used in this Memorandum, the term “net worth” means the excess of total assets over total liabilities. In computing net worth for the purposes of above, the principal residence of the investor must be valued at cost, including costs of improvements, or at recently appraised value by an institutional lender making a secured loan, net of encumbrances. In determining income, an investor should add to the investor’s adjusted gross income any amounts attributable to tax exempt income received, losses claimed as a limited partner in any limited partnership, deductions claimed for depletion, contributions to an IRA or Keogh retirement plan, alimony payments, and any amount by which income for long-term capital gains has been reduced in arriving at adjusted gross income.

In order to meet the conditions for exemption from the registration requirements under the securities laws of certain jurisdictions, investors who are residents of such jurisdictions may be required to meet additional suitability requirements.

In order to ensure that a prospective investor satisfies certain minimum suitability requirements imposed by applicable federal and state securities laws, each prospective investor will be required to execute a Subscription Agreement and an Accredited Investor Certification attached thereto (together, the “Subscription Materials”), and thereby make certain representations and warranties, including without limitation, that: (a) its financial condition is such that it is able to bear the risk of holding the Common Stock and Warrants for an indefinite period of time, it has adequate means to provide for its current financial needs and contingencies, it has no need for liquidity in this investment, and it is able to risk the loss of its entire investment in the Units; (b) it or its advisors have such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of acquisition of the Units and of making an informed investment decision with respect thereto; (c) it has read, understood, and is familiar with this Memorandum and such investor is not subscribing for the Units as a result of any advertisement, article, notice, or other information or communication; (d) the Company has made available all additional information which was requested by the investor in connection with the transactions contemplated by the Subscription Agreement, as well as the opportunity to ask questions and receive answers from the Company concerning the terms and conditions of the purchase of the Units; and (e) it is purchasing the Units solely for its own account for the purpose of investment and not with a view to distribution or for sale in connection with any distribution thereof and it has no present intention or plan to effect any distribution of the Units, the Common Stock or the Warrants and will not sell or otherwise transfer the Units, the Common Stock or the Warrants without registration under the Securities Act or an exemption therefrom. The ability of a prospective investor to make the foregoing representations does not necessarily mean that the Units, the Common Stock or the Warrants are a suitable investment for such investor or that such investor’s subscription will be accepted by the Company. See the Subscription Agreement attached hereto as Exhibit A.

Procedure for Subscription

An investor who meets the suitability standards may subscribe for the Units by properly completing the enclosed Subscription Materials. Please carefully read the instructions in the Subscription Materials. Investors should:

(1) Deliver the executed Subscription Materials to Fellows Energy Ltd., 370 Interlocken Boulevard, Suite 400, Broomfield, Colorado 80021; and

(2) Include a check in the appropriate amount payable to "Fellows Energy Ltd. – Escrow Account."

All subscription payments will be held in a subscription escrow account for the benefit of subscribers at Wachovia Bank, pending an initial closing with minimum gross proceeds of not less than \$1,850,000, or termination of the Offering. After the initial closing, with respect to subsequent subscriptions, Fellows may have such number of closings, with gross proceeds in such amounts, as Fellows, in its discretion, deems appropriate. In the event a closing with the minimum gross proceeds does not take place by June 1, 2005, all subscription payments will promptly be returned in full to the subscribers, with interest through June 1, 2005. Subscription payments will be returned promptly without interest to subscribers whose subscriptions are not accepted by the Company.

Fellows reserves the right to impose suitability standards in its own discretion and to refuse acceptance of any subscription for any reason or no reason.

TRANSFER RESTRICTIONS

The Securities offered hereby have not been registered under the Securities Act, and may not be offered or sold in the United States by a purchaser in this Memorandum except pursuant to an effective registration statement or in accordance with an exemption from the registration requirements, as set forth below.

Investor Representations with Respect to Restrictions on Resale

Each purchaser of the Securities offered hereby will be deemed to have represented and agreed as follows:

Each purchaser of the Securities offered hereby (for purposes of this section, each an "Investor") will be deemed to have represented and agreed as follows:

- Investor is acquiring the Securities for investment for his, her or its own account and not with a view to, or for resale in connection with, any distribution thereof, except in compliance with applicable securities laws, and Investor has no present intention of selling or distributing the Securities, and will not sell or distribute such Securities, except in compliance with applicable securities laws. Investor understands that as of the date of the Subscription Agreement the Securities have not been registered under the Securities Act. Investor understands that Investor has neither the right to require the Company or any underwriter to register the Securities under the Securities Act or state securities laws at any time nor the right to join in any future registration of shares of capital stock by the Company.
- Investor acknowledges that, because the Securities have not been registered under the Securities Act, the Securities that Investor receives at the closing of its investment must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available. Investor is aware of the provisions of Rule 144 promulgated under the Securities Act that permits limited resale of securities purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the resale occurring not less than one year after a party has purchased and paid for the security to be sold. Investor understands that at the present time Rule 144 is not

applicable with respect to the Securities and may not be applicable in the future.

- Investor is financially able to bear the economic risk of investment in the Securities, including a total loss of investment. Investor has adequate means of providing for its current needs and has no need for liquidity in its investment in the Securities and has no reason to anticipate any material change in its financial condition in the foreseeable future. Investor understands that the acquisition of the Securities is an investment involving a risk of loss and there is no guarantee that Investor will realize any gain from such investment, and that he, she or it could lose the total amount of such investment. Investor understands that neither the Commission nor any other U.S. federal or state agency has reviewed the proposed offering of the Securities or made any finding or determination of fairness of the offering of the Securities or any recommendation or endorsement of such investment.
- Investor understands that the following legend will be placed on any certificate representing the Securities unless otherwise agreed by Fellows:

“THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR STATE SECURITIES LAWS AND CANNOT BE OFFERED, SOLD, ASSIGNED, OR OTHERWISE TRANSFERRED AT ANY TIME WHATSOEVER, EXCEPT UPON DELIVERY TO THE COMPANY OF EVIDENCE SATISFACTORY TO THE COMPANY AND ITS COUNSEL (INCLUDING, AT THE COMPANY’S OPTION, AN OPINION OF COUNSEL) THAT REGISTRATION IS NOT REQUIRED FOR SUCH OFFER OR TRANSFER AND THAT SUCH OFFER OR TRANSFER IS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS AND REGULATIONS PROMULGATED THEREUNDER. THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED BY THE REGISTERED OWNER HEREOF FOR INVESTMENT AND NOT WITH A VIEW TO OR FOR SALE IN CONNECTION WITH ANY DISTRIBUTION THEREOF IN VIOLATION OF THE SECURITIES ACT. THE SHARES MAY NOT BE SOLD, PLEDGED, TRANSFERRED OR ASSIGNED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER THE PROVISIONS OF THE SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS, OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR IN A TRANSACTION OTHERWISE IN COMPLIANCE WITH APPLICABLE FEDERAL AND STATE SECURITIES LAWS.”

USE OF PROCEEDS

The maximum total gross proceeds expected from this Offering is \$10,500,000. The minimum gross proceeds expected from this Offering is \$1,850,000. Estimated cash Offering expenses are projected to be approximately \$100,000. Offering expenses include, but are not limited to, legal and accounting fees and costs and printing costs. The use of the proceeds from this Offering may vary depending upon the amount of subscriptions tendered and accepted.

The following table reflects our anticipated uses of funds if the maximum offering amount is raised:

Project Description	Min. Proceeds	Max. Proceeds
Overthrust CBNG, Rich, Morgan & Summit Counties, Utah	\$300,000	\$3,500,000
Drilling and Evaluation		
Land Payments		
Kirby CBNG, Big Horn & Custer Counties, Montana	\$250,000	\$1,766,000
Acquisition from Quaneco, L.L.C.		
Castle Rock CBNG, Powder River County, Montana	\$250,000	\$2,084,000
Acquisition from Quaneco, L.L.C.		
Bacaroo Project, Baca County, Colorado	\$0	\$500,000
Drilling		
Carter Creek, Converse County, Wyoming	\$0	\$500,000
Drilling		
Placement Agent Fees and Expenses	\$240,500	\$1,365,000
Working Capital and Offering Expenses	\$809,500	\$785,000
Total	\$1,850,000	\$10,500,000

The Company reserves the right to vary the use of proceeds based on (i) more than \$1,850,000 and less than \$10,500,000 being raised, (ii) developments in the business and at the properties as plans continue to be refined and (iii) changes in the working capital needs over time.